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REMARKS

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FYI. Briefs on textiles prepared for USTR
 [redacted] OGI pulled
 the package together and sent it to USTR
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THE CHINESE TEXTILE INDUSTRY

China is the fourth largest supplier of textiles and apparel to US markets. The textile industry, bolstered by economic reforms designed to increase production and exports, has used China's vast supply of inexpensive labor to its advantage, sharply increasing output of textiles and garments since 1980. The Chinese pricing regime, which seldom reflects actual costs, helps maintain China's status as a producer of low-cost goods. In addition, Beijing's policy of progressively opening more commerce to foreign participants has stimulated export development in the textile industry, encouraged by bargain-hunting Western importers and retailers. []

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Although growth was rapid in the early 1980s, further expansion may be slowed by a number of factors. Beijing's reorganization of its textile and apparel bureaucracy, for example, may cause confusion over the next year or so because the roles to be played by the several entities are unclear. Expansion may also be deterred by the government's attempts to regain control of investment, which has skyrocketed because of unauthorized spending on unplanned factory capacity in textiles and other industrial sectors. We believe, however, that internal resource, capacity, or bureaucratic factors will restrain only the short-term growth of the industry. []

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China has had some success developing new product lines and finding new markets. Textile authorities promote quality control and higher value-added lines to increase the marketability of Chinese products in both domestic and foreign markets. They also are considering helping other countries build plants--China recently agreed to help construct 12 new mills in Bangladesh--to provide markets for Chinese raw materials and equipment alike. China's July agreement with the Soviet Union will provide a large market, primarily for apparel, which both sides expect to be a major barter good through 1990. Beijing has also signed barter agreements with several East European nations and other LDCs that will absorb textiles and apparel available for export. []

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We have few details on the textile industry's investment goals. The synthetic fibers industry is focussing on development of acrylic fibers for the next few years, and wool spinning capacity is under expansion. Both developments are reportedly aimed at improving cold-weather apparel for northern China, but probably will also provide exports to the USSR and improvement of capabilities in household product lines such as carpets. []

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Chinese officials believe the Multifiber Arrangement no longer serves to help developing nations, and should therefore be abandoned. The Chinese want textiles and apparel returned to coverage by the General Agreement on Tariffs and Trade because under it they could impose compensating duties. []

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TAIWAN'S TEXTILE INDUSTRY

Taiwan is the third largest supplier to US markets of textiles and clothing combined, but is second largest of clothing alone. Taiwan's textile industry imports most of its raw materials--cotton, synthetic fibers, and feedstocks for synthetics--and exports primarily fabrics and clothing. Compared with less-developed textile exporting countries, Taiwan's products tend to be of higher quality. []

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Wages in the textile and apparel industries have jumped 43 and 47 percent respectively since 1980, substantially faster than in the manufacturing sector as a whole. As a result, Taiwan has become somewhat less competitive in international markets. []

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[] growth in Taiwan's apparel industry has slowed and that many firms are trying to expand only through investment in other parts of the world, notably in Caribbean countries and in South Africa. Business owners apparently hope that these moves will provide their Taiwan-based firms a means to increase sales to developed nations without violating the quota constraints imposed on Taiwan-origin goods. Taiwan's polyester industry, on the other hand, plans an expansion of yarn and fabric output to service domestic and and export markets toward the end of this decade. []

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Taiwan's official reaction to tightening US and European restrictions on imports of textiles and apparel have been low-key. Taipei may believe that the investment in those industries in other countries will permit growth that is not restrained by new or tighter restrictions. []

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Taiwan is not a member of the Multifiber Arrangement (MFA), though its bilateral textile trade agreements are governed by MFA guidelines. As an experienced and astute trading nation, Taiwan may welcome the demise of MFA and the return of textiles and apparel to GATT rules. However, Taiwan will probably experience increasing erosion of its price-competitiveness because of the growth of emerging, low-cost textile exporters. []

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Hong Kong's Textile Industry

Hong Kong's textile industry would not merely survive in an open trading environment, it would thrive. Indeed, Eric Ho, the Crown Colony's Secretary of Trade and Industry, recently asserted that a return to free trade would be the ideal solution for Hong Kong. Although Ho recognized that this would not be practical in the current GATT environment, he advocated a return to an earlier form of the present Multifiber Arrangement, where rules exempting LDCs and newcomers to the textile market were strictly observed by the Developed Countries. []

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Textile and apparel exports now account for 40 percent of the colony's foreign exchange earnings and for 20 percent of its GDP--by far the largest share of any LDC's GDP. A full 8 percent of Hong Kong's GDP comes from its exports of textiles and apparel to the United States alone, a fact that explains why the current textile legislation in the United States is of critical concern to the Colony. According to one estimate, the textile bill now before Congress could cut Hong Kong's exports by \$1 billion. This would cause an immediate drop of 3 percent in GDP and could trigger severe secondary repercussions throughout the economy. []

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Total output of the textile and apparel industry has not increased substantially in the last ten years, but improvements in quality have significantly increased the monetary value. As a result, real wages in the industry have also improved substantially, leaving the lower end of the market to other Asian textile producers. Hong Kong is the largest apparel supplier to the United States, accounting for 22 percent of US imports last year; the Colony was only the eight largest supplier of yarn and fabric, however, with 4 percent of the US market. Hong Kong actually imports three times as much fabric as it exports. []

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During 1985, foreign firms operating in Hong Kong have become less concerned about the reversion of the Crown Colony to China in 1997, believing that the mainland will act responsibly in order to absorb Hong Kong's large quota. Hong Kong, moreover, will have a bigger voice in international textile organizations, because China has agreed to take the same stand in future talks on textile trade. []

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Unlike the textile industries in many other exporting countries where central governments are heavily involved, Hong Kong's industry is highly decentralized, with almost 5,000 establishments engaged in producing yarn and fabric, and more than 9,000 firms producing wearing apparel. For that reason there is scant information available to us on the areas where investment is being concentrated. In the textile industry, the number of spindles and looms, both installed and in operation, have actually been decreasing, both due to greater competition from abroad, and to replacement investment in higher speed machinery. []

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Hong Kong's clothing industry will continue to turn out the latest in fashions, with designer copies hitting the streets as soon as they are available in Paris. Hong Kong's textile industry, however, probably has peaked. Therefore, over the long term, we do not expect Hong Kong to substantially increase its world market share. Rather, we would expect other LDCs to make continuous inroads.

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